

The Conference Board Economic Forecast for the U.S. Economy August 8, 2018

GDP Set to Peak In Second Half of 2018

The second quarter of 2018 showed the US economy in full flight, illustrated by 4.1 percent GDP growth, which compensated for a modestly disappointing first quarter to bring first half growth to 3.1 percent. With tax cuts continuing to support growth and budget increases kicking in, federal spending along with high business and consumer confidence should drive growth to a 3.3 percent average during the second half of the year. This will likely represent a peak. Less support from monetary and fiscal policy, and a weaker global economy will gradually slow the economy to below 2.5 percent growth by the end of 2019.

Consumption is leading the way as a strong job market and higher incomes due to individual tax cuts saw consumers shift into a higher spending gear. With expanding incomes, spending should rise in discretionary categories like household furniture and accommodations.

Business investment also provides a mostly positive picture. Investment in capital equipment slowed in the second quarter but recent orders data signal an improvement in the second half. Critically, investment in software and research and development has picked up in the first half of 2018, signaling that productivity gains could be on the horizon. Boosting the economy's capacity is essential to maintain anything like current growth rates given constraints on both capital and labor availability because of rising interest rates and labor market tightness.

It will be difficult to sustain this same pace of growth in 2019, especially as the projected medium-term growth rate is much closer to 2 than 3 percent. Federal spending growth will slow, forcing the private sector to make an even larger contribution. Already, higher interest rates along with labor shortages in construction, and higher materials costs, have led to a cooler housing market. Increasing capital costs and specific supply constraints such as the rising cost of transportation and warehousing services could constrain business activity. Weakening global growth will also provide US firms with less external support next year. Firms should take full advantage of economic strength during the next two quarters and prepare for gradual deceleration in 2019.

The U.S. Economic Forecast

THE CONFERENCE BOARD ECONOMIC OUTLOOK, 2017-2019
Percentage change, seasonally adjusted annual rates

	2017		2018				2019		2017	2018	2019
	first half	second half	I Q*	II Q*	III Q	IV Q	first half	second half	ANNUAL	ANNUAL	ANNUAL
Real GDP	2.4	2.6	2.2	4.1	3.4	3.2	2.7	2.4	2.2	2.9	2.9
Real Consumer Spending	2.3	3.1	0.5	4.0	2.6	2.6	2.5	2.5	2.5	2.6	2.7
Residential Investment	2.8	5.3	-3.4	-1.0	2.0	2.0	2.0	2.0	3.3	0.9	1.8
Real Capital Spending	8.4	4.1	11.5	7.4	5.3	5.3	4.9	4.6	5.3	7.0	5.1
Exports	4.3	5.1	3.6	9.3	-1.0	4.1	4.0	4.0	3.0	4.6	3.7

* Actual data